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SUBJECT: US-Austrian Trade Down Sharply as Industry Struggles

¶1. The economic crisis has badly hit trade between the U.S. and Austria, according to preliminary 2008 statistics issued this month by the Austrian Federal Statistics Office (Statistik Austria) and the Economic Chamber (WKO). U.S. and Austrian exports fell by similar proportions in 2008 (about ten percent for the year, and much more sharply late in the year). Since US-Austrian trade is highly industrial, the global economic crisis has hit bilateral trade hard (especially the automotive sector, a central factor in both directions) without a broad swath of agricultural and consumer products to cushion the fall.

¶2. According to Austrian data, U.S. deliveries to Austria in 2008 declined by 9.1% to USD 5.0 billion, after a steady rise between 2005 and 2007 (7-9% per annum). Total bilateral trade fell by 9.5% to USD 12.7 billion, as Austrian exports fell by a similar ratio. The U.S. is Austria's seventh largest importer (2.9%) and it remains Austria's third largest trading partner after Germany and Italy (Note: U.S. Census Bureau trade figures differ slightly from Austrian data and show a dramatic 45% trade decrease in December 2008 versus the previous December).

¶3. Machinery, vehicles and transport equipment accounted for 56% of U.S. exports to Austria and 52% of U.S. imports from Austria -- and the beleaguered automotive sector accounts for most of the 10.1% decrease. Automotive model changes are also reducing trade, but two might boost U.S. jobs on balance: -- By 2010, BMW will phase out production in Graz of its SUV model X3 (popular in the U.S. and manufactured in Graz since 2003) and assemble its successor at the BMW plant in Spartanburg, South Carolina. -- In late 2009, Chrysler will phase out assembly of the Jeep Grand Cherokee in Graz, and assemble its successor in the U.S. Other Chrysler production in Graz has also been phased out.

COMMENT

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¶4. The sharp fall in U.S. trade has not gone unnoticed in Austria, which in 2008 ran a merchandise trade deficit for the first time in years. A leading Austrian official (WKO President Christoph Leitl) used a press conference rolling out 2008 trade statistics to harshly criticize the U.S. (in particular Wall Street) for having "caused the financial crisis" and dragging Europe into recession. We hope that December's plunge will be temporary and that Post can address ongoing challenges by promoting new export niche markets such as in green technology. We hope that the political fallout will be contained, but stand ready to address it as well.

KILNER